



DEPARTMENT OF THE NAVY
OFFICE OF THE SECRETARY
WASHINGTON, D C 20350

SECNAVINST 5401.2
AAUSN/ASN(M&RA)

28 June 1982

SECNAV INSTRUCTION 5401.2

From: Secretary of the Navy

Subj: Establishment, Management and Control of Nonappropriated Fund Instrumentalities

Encl: (1) DOD Directive 1015.1 of August 19, 1981

1. Purpose. To implement enclosure (1) and present policies for the establishment and disestablishment of Nonappropriated Fund Instrumentalities (NAFIs); provide a standard classification system; and assign responsibilities for their management and control.

2. Applicability. This instruction applies to all military and civilian Nonappropriated Fund Instrumentalities (NAFIs) within the Department of the Navy.

3. Policy. It is Department of the Navy policy to promote and provide well-rounded morale, welfare, and recreation (MWR) programs to ensure the mental and physical well-being of its personnel. Administration of nonappropriated funds (NAFs), which contribute to the support of these programs, shall be accomplished only through the auspices of a duly authorized NAFI specifically established for this purpose.

4. Responsibilities

a. The Assistant Secretary of the Navy (Manpower and Reserve Affairs) is the principal staff assistant to the Secretary of the Navy for morale, welfare, and recreation matters, including policy on the administration of NAFIs. In discharging this responsibility the ASN (M&RA) will:

(1) Develop and promulgate broad policy and other guidance to ensure proper administration and management of NAFIs.

(2) Monitor compliance with all NAFI guidance promulgated by OSD.

(3) Serve as the principal point of contact on policy matters between the Department of the Navy, Department of Defense and the other military services.

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b. The Chief of Naval Operations and the Commandant of the Marine Corps are responsible, within their respective military service, for the following in respect to NAFIs:

(1) Development and promulgation of operational policies and procedures;

(2) Establishment and disestablishment of NAFIs;

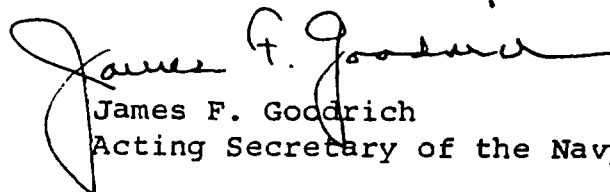
(3) Maintenance of a current listing, except for Category III-A company or unit-level Military General Welfare and Recreation NAFIs, identifying and classifying each NAFI;

(4) Assignment of organizational responsibility for NAFI management, administration and control;

(5) Periodic review and audit of NAFIs to assure continued need for each of the functions performed and that those needs are being met in accordance with sound business practices; and

(6) Maintenance of program performance and financial management information, and submission of required reports.

5. Action. The Chief of Naval Operations and the Commandant of the Marine Corps shall implement the provisions of enclosure (1).


James F. Goodrich
Acting Secretary of the Navy

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August 19, 1981
NUMBER 1015.1

ASD(MRA&L)

Department of Defense Directive

SUBJECT Establishment, Management, and Control of Nonappropriated Fund Instrumentalities

- References:**
- (a) DoD Instruction 1000.15, "Private Organizations on DoD Installations," September 22, 1978
 - (b) DoD Directive 1125.3, "Vending Facility Program for the Blind on Federal Property," April 7, 1978
 - (c) DoD Directive 1330.9, "Armed Services Exchange Regulations," July 8, 1980
 - (d) DoD Instruction 7700.18, "Nonappropriated and Privately Funded Construction Projects - Review and Reporting Procedures," July 24, 1978
 - (e) through (l), see enclosure 1

A. PURPOSE

This Directive:

1. Presents policies for the establishment and disestablishment of Nonappropriated Fund Instrumentalities (NAFIs).
2. Provides a standard classification system for NAFIs.
3. Assigns responsibilities for the management and control of NAFIs.

B. APPLICABILITY AND SCOPE

1. The provisions of this Directive apply to the Office of the Secretary of Defense, the Military Departments (hereafter referred to as "DoD Components,"), the Joint Chiefs of Staff, the Unified and Specified Commands, and the Defense Agencies. The term "Military Services" as used herein, refers to the Army, Navy, Air Force and Marine Corps.

2. The following funds are administered and managed in accordance with separate DoD Component regulations and are excluded from this Directive:

- a. All funds accounted for under U.S. Treasury symbols (to include Armed Services Commissary Store Surcharge Funds) and resources acquired with appropriated funds.
- b. Patients' trust funds.
- c. Prisoners' personnel deposit funds.

Enclosure (1)

d. Contractor and subcontractor funds (including concessionaire funds) on DoD installations.

e. Funds of private organizations (as defined in DoD Instruction 1000.15, reference (a)).

f. Midshipmen's Store, United States Naval Academy.

g. Cadet and midshipmen personnel trust funds at service academies.

h. Naval home resident trust funds.

i. Soldier and airmen's home personal trust funds.

j. Vending facilities operated by the blind licensees under the provisions of DoD Directive 1125.3 (reference (b)).

k. Chaplain Religious Fund.

C. DEFINITIONS

The terms used in this Directive are defined in enclosure 2.

D. POLICY

1. It is the policy of the Department of Defense to promote and provide well-rounded morale, welfare, and recreation (MWR) programs to ensure the mental and physical well-being of its personnel. Administration of nonappropriated funds (NAFs), which contribute to the support of these programs, shall be accomplished only through the auspices of a duly authorized NAFI (as defined herein) specifically established for this purpose.

2. A NAFI shall be established only upon the written authority of the Assistant Secretary of Defense (Manpower, Reserve Affairs, and Logistics (ASD MRA&L)) or the Secretary of a Military Department or designee. A request to establish a NAFI shall include but not be limited to the purpose of the NAFI; membership provisions, if applicable; types of functional activities to be conducted; and a financial plan to operate these activities.

3. Joint NAFIs may be established by agreement between the Secretaries of the Military Departments concerned. A single Military Department shall be designated to coordinate reporting to and communication with the ASD(MRA&L) concerning each joint NAFI, except for communications of the Secretary of a Military Department prescribed by DoD Directive 1330.9 and DoD Instruction 7700.18 (references (c) and (d)). The joint agreement shall also include provisions for the establishment or designation of the successor NAFI within each of the participating Departments.

4. Unless exempted in writing by the ASD(MRA&L) or the Secretaries of Military Departments or designees, an advisory group shall be designated for each NAFI (optional for Category VII, Common Services NAFIs) to ensure that it is responsive to the needs of the personnel. The composition, function, and purpose of this advisory group shall be determined by the Military Department concerned. In addition to the advisory groups, joint NAFIs will have a governing body known collectively as the Board of Directors.

5. Individuals, units, organizations, or installations shall have no proprietary interest in NAFI funds or other assets. Excess or residual accumulations of NAFI assets acquired by a NAFI, may be redistributed to other NAFIs, or otherwise disposed of, in accordance with policies and procedures established by the Secretary of the Military Department concerned.

6. NAFI funds or assets may not be transferred to private organizations as dividends or other distributions.

7. When control of an installation or organization is transferred from one Military Department to another or to another U.S. Government department or agency, the disposition of NAFI assets or liabilities shall be determined through negotiation. These negotiations shall assure a fair and equitable distribution of assets in consideration of current and foreseeable requirements of the affected installations or organizations.

8. Management and control of NAFIs shall be exercised in accordance with the provisions of references (c), and (e) through (j), enclosure 1.

E. RESPONSIBILITIES

1. The Assistant Secretary of Defense (Manpower, Reserve Affairs, and Logistics), pursuant to DoD Directive 5124.1 (reference (k)), is the principal staff assistant to the Secretary of Defense for morale, discipline, and welfare matters, including policy on the administration of NAFIs. In discharging this responsibility, the ASD(MRA&L) shall:

a. Develop and promulgate broad policy and other guidance to ensure proper administration and management of NAFIs.

b. Monitor compliance with all NAFI guidance promulgated by the OSD.

c. Serve as the principal point of contact on policy matters between the OSD and the Military Departments.

d. Establish necessary advisory groups, with representation from DoD Components, to assist in formulation and review of DoD policies pertaining to NAFIs. Standing advisory groups shall include but not be limited to the DoD MWR Coordinating Committee; the DoD Nonappropriated Fund Personnel Policy Committee; and the DoD Nonappropriated Fund Retirement and Insurance Committee.

2. The Deputy Assistant Secretary of Defense (Administration) shall supervise and administer the affairs of MWR activities within the immediate offices of the Secretary of Defense and the Joint Chiefs of Staff in accordance with policies contained in this Directive and in DoD Directive 5120.18 (reference (e)).

3. Heads of DoD Components, or their designees, are delegated the authority to establish, maintain, and disestablish NAFIs. Specifically, they shall:

a. Maintain a current listing, except for Category III-A company or unit-level Military General Welfare and Recreation NAFIs (enclosure 3), identifying and classifying each NAFI.

b. Assign organizational responsibility for NAFI management, administration, and control.

c. Provide for the periodic review and audit of NAFIs to assure continued need for each of the functions performed and that those needs are being met in accordance with sound business practices.

d. Maintain program performance and financial management information, and furnish required reports consistent with the provisions of DoD Directive 5000.19 (reference (f) and DoD Directive 5000.11 (reference (g))).

4. Directors of Defense Agencies; Commanders of Unified and Specified Commands and Chiefs of Military Assistance Advisory Groups and Missions shall:

a. Establish, manage, and control NAFIs, in accordance with the regulations of a single Military Department, normally that Department with administrative and logistical support responsibility, in accordance with DoD Directive 5100.3 (reference (h)).

b. Before establishing NAFIs, submit in writing a request to the Secretary of the Military Department concerned, or designee, for authority to establish NAFIs, as prescribed by the regulations of that Department.

c. Submit a request to the Military Department concerned for authority to continue NAFIs, established as of the date of this Directive, under the regulations of that Department.

d. Be subordinate to the Military Department concerned, or designee, for purposes of compliance with DoD Instruction 1000.15, DoD Directive 1330.9, and DoD Instruction 7700.18 (references (a), (c), and (d) as implemented by the regulations of that Department.

F. PROCEDURES

1. Criteria for Establishment or Disestablishment of NAFI.

a. Establishment

(1) To establish a NAFI, the establishing authority must determine that there is a valid requirement for a separate organizational and fiscal entity to support a MWR activity. The nature of the requirement must be such that the protection and immunities accorded an instrumentality of the U.S. Government are necessary, and there is no prohibition by or conflict with federal statutes, Status of Forces Agreements, treaties, or applicable federal regulations. At least one successor NAFI will be established or designated at DoD Component headquarters level; others may be established or designated at those organizational levels within the Component when necessary.

(2) Subsequent to the publication of this Directive, joint NAFIs may be established by agreement between the heads of two or more Components, subject to the approval of ASD(MRA&L). The joint agreement shall include provisions for establishment or designation of the successor NAFI within each of the participating Components.

b. Disestablishment

(1) When no longer required, a NAFI shall be disestablished in writing by the same authority by which established or as otherwise directed by ASD(MRA&L).

(2) In case of NAFI disestablishment due to a complete or partial closure of a military installation or to a cutback in DoD personnel (civilian or military), NAFI assets shall be redistributed in accordance with the provisions of DoD Directive 5410.12 (reference (i)).

2. Inter-Organization Host/Tenant NAFI Relationships

a. Provisions of DoD Directive 4000.19 (reference (j)) are applicable to interservice, interdepartmental, and interagency support.

b. When organizations, units, or individuals of a Military Department or Defense Agency are stationed, either within the United States or overseas, at an installation of another service, the installation commander's responsibility for NAF instrumentalities and the responsibility for the provisions of funds devolves upon the command of the installation at which such organization, unit, or individual is stationed. DoD organizations or units so stationed shall be afforded NAF benefits and facility use privileges on the same basis as those afforded organizations or units of the parent service of the installation. All personnel of tenant organizations and units shall be afforded equal opportunity to participate in MWR programs; to obtain membership in MWR activities, if applicable; and when Departmental policies provide for distribution to be made on this basis, to be counted for purposes of distributing NAFs.

c. Exceptions to the policies in 2.b., above, may be granted under agreements between the Military Departments or Defense Agencies concerned.

3. Standard Classification System For DoD NAFIs.

a. General

(1) The purposes of classifying NAFIs are:

(a) To assure uniformity within the Department of Defense in the establishment, management, allocation of resource support, and control of NAFIs.

(b) To assure understanding of the essential relationships of NAFIs to the provision of well-rounded DoD MWR programs.

b. Categories of DoD NAFIs


(1) NAFIs shall be classified into one of eight categories as shown in enclosure 3. All reports submitted to OSD shall reflect personnel and financial management data in the categories prescribed in this enclosure.

(2) In approving NAFIs for establishment, the Military Departments shall structure NAFI operations to conform with the types of activities listed in enclosure 3, except that Open Messes (Category V) may operate alcoholic beverage package stores (Category II) as separate fiscal entities. Reports to OSD for such package stores shall reflect personnel and financial management data in Category II.

(3) Efforts shall be directed to structuring operations in existing NAFIs to that prescribed in enclosure 3 by January 1982, except that Open Messes (Category V) may continue to operate existing swimming pools and tennis courts (Category III.B). Secretaries of Military Departments, or their designees, may grant additional exceptions, provided that written notification is furnished to the OASD(MRA&L) by January 1, 1982.

G. EFFECTIVE DATE AND IMPLEMENTATION

This Directive is effective immediately. Forward two copies of implementing documents to the Assistant Secretary of Defense (Manpower, Reserve Affairs, and Logistics) within 120 days.


Frank C. Carlucci
Deputy Secretary

Enclosures - 3

1. References
2. Definitions
3. Categorization of MWR Activities and Supporting NAFIs.

REFERENCES (Continued)

- (e) DoD Directive 5120.18, "DoD Concessions Committee," April 8, 1980
- (f) DoD Directive 5000.19, "Policies for the Management and Control of Information Requirements," 12 March, 1976
- (g) DoD Directive 5000.11, "Data Elements and Data Codes Standardization Procedures," 27 April, 1965
- (h) DoD Directive 5100.3, "Support of the Headquarters of Unified, Specified and Subordinate Joint Commands," March 17, 1980
- (i) DoD Directive 5410.12, "Economic Adjustment Assistance to Defense Impacted Communities," April 21, 1973
- (j) DoD Directive 4000.19, "Basic Policies and Principles for Interservice, Interdepartmental and Interagency Support," March 27, 1972
- (k) DoD Directive 5124.1, "Assistant Secretary of Defense (Manpower, Reserve Affairs and Logistics), April 20, 1977
- (l) DoD Instruction 7000.12, "Financial Management of Nonappropriated Funds and Related Appropriated Resources," July 17, 1974

DEFINITIONS

1. Morale, Welfare and Recreation (MWR) Activities. Those activities exclusive of private organizations as defined in DoD Instruction 1000.15 (reference (a)) located on military installations or on property controlled (by lease or other means) by a Military Department, or furnished by a DoD Contractor that provide for the comfort, pleasure, contentment, and mental and physical improvement of authorized DoD personnel in terms of providing recreational and free-time programs, self-development programs, resale merchandise and services, or general welfare. MWR activities may be funded wholly with appropriated funds, primarily with NAFs or with any combination of appropriated and NAFs.
2. Nonappropriated Fund Instrumentality (NAFI). An integral DoD organizational entity that performs an essential government function. It acts in its own name to provide or to assist other DoD organizations in providing MWR programs for military personnel and authorized civilians. It is established and maintained individually or jointly by the Heads of DoD Components. As a fiscal entity, it maintains custody of and control over its NAFs. It is also responsible for the exercise of reasonable care to administer, safeguard, preserve, and maintain prudently those appropriated fund resources made available to carry out its function. It contributes, with its NAFs to the MWR programs of other authorized organizational entities, when so authorized. It is not incorporated under the laws of any state or the District of Columbia and it enjoys the legal status of an instrumentality of the United States.
3. Nonappropriated Funds (NAFs). Cash and other assets received by NAFIs from sources other than monies appropriated by the Congress of the United States. NAFs are government funds; are used for the collective benefit of military personnel, their dependents, and authorized civilians who generated them. These funds are separate and apart from funds recorded in the books of the Treasurer of the United States.
4. Successor and Central NAFIs. Terms explaining the financial relationships that exist between NAFIs established within the DoD Components. These relationships are intended to assure that the financial administration of NAFIs within the Department of Defense is not only responsive to the MWR needs of the participants but also recognizes the necessity for a NAFI to be fiscally responsible and financially solvent at all times. More specifically:
 - a. Successor NAFI. A NAFI designated by DoD Components to provide financial support and assistance to its assigned NAFIs, as required; receive or redistribute excess assets of its assigned NAFI; receive or distribute residual assets of a dissolved assigned NAFI; or assume residual liabilities of a dissolved assigned NAFI.
 - b. Central NAFI. A successor NAFI at a DoD Component or Military Service headquarters level. In the interest of clarity, the term "Central" shall be used only to designate successor NAFIs at DoD Component or Military Service headquarters level.

CATEGORIZATION OF MWR ACTIVITIES AND SUPPORTING NAFls

CATEGORY	EXPLANATION OF EACH CATEGORY	TYPES OF MWR ACTIVITIES
I. Armed Services	Includes the functions of providing through the Components' Exchange Systems reimbursable goods and services to authorized patrons, and funds to support other designated moral programs.	<div> <div>Headquarters level Exchange Fund</div> <div>Retail store</div> <div>Soda fountain & snack bar</div> <div>Beer bar</div> <div>Gasoline filling station</div> <div>Car wash</div> <div>Restaurant & Cafeteria</div> <div>Barber shop</div> <div>Beauty parlor</div> <div>Automobile garage & service station</div> </div> <div> <div>Laundry</div> <div>Watch repair shop</div> <div>Radio & TV repair shop</div> <div>Tailor shop, including dry cleaning & pressing</div> <div>Shoe repair shop</div> <div>Photographic studio</div> <div>Vending & amusement machines</div> <div>Grocery section (when specifically authorized)</div> <div>Taxicab & bus service</div> <div>Newstands</div> </div>
II. Other Resale & Revenue-Sharing	Includes the functions of providing, other than through exchanges, reimbursable goods and services to authorized patrons, and funds to support other designated morale programs.	<div> <div>Civilian Dining/Vending and other Resale Activities and Services</div> <div>Academic book store</div> <div>Stars and Stripes</div> <div>Audio/Photo (Resale)</div> <div>Class VI Stores/alcoholic beverage package stores</div> </div>

CATEGORIZATION OF MWR ACTIVITIES AND SUPPORTING NAFIs

CATEGORY	EXPLANATION OF EACH CATEGORY	TYPES OF MWR ACTIVITIES
III. Military General Welfare & Recreation (MGWR)	Includes those functions of providing welfare and recreation programs for military personnel. Category IIIA NAFIs provide NAF support to those MWR activities in Category IIIB. Category IIIB activities are generally administered by special services, recreation directors, or officers. Category IIIB activities will not be established, organized, or operated as NAFIs.	<p>III.A Headquarters Level MGW & R Fund Major Command Level MGW & R Fund Installation Level MGW & R Fund Company/Unit Level MGW & R Fund Inmate Confinement Welfare Fund</p> <p>III.B.</p> <p>GROUP 1 Category IIIB Libraries Sports/Athletic-Self Directed & Unit Level/Intramural Recreation Centers/Rooms Shipboard & Isolated/Deployed Unit Motion Pictures (Free Admission) Armed Forces Professional Entertainment Overseas Unit Level Programs/Activities</p> <p>GROUP 2 Arts & Crafts (including Automotive) Entertainment (including Music & Theatre) Outdoor Recreation Swimming Pools Youth Activities Sports-Competitive (above Intramural) Child Care Centers Stables Marinas/Boating Bowling (6 lanes or less)</p> <p>GROUP 3 Snack Bars operated by Recreation Programs Sheet/Trip Ranges Armed Forces Recreation Centers Cabin/Cottage Amusement Machines</p>
IV. Civilian Employee General Welfare & Recreation	Includes these functions of providing welfare and recreation programs for civilian personnel.	<p>Headquarters Civilian Employee General Welfare & Recreation Fund Major Command Civilian Employee General Welfare & Recreation Fund Installation Civilian Employee General Welfare & Recreation Fund Civilian Welfare/Recreation Activities</p>

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CATEGORIZATION OF MWR ACTIVITIES AND SUPPORTING NAFTs

CATEGORY	EXPLANATION OF EACH CATEGORY	TYPES OF MWR ACTIVITIES
V. Open Messes	Includes the function of providing messing including essential feeding, where required, social programs, services, and facilities to membership groups and support of protocol and official functions.	Headquarters level military Open Mess Fund Major Command level military Open Mess Fund Installation Club Management Office Commissioned Officers Mess Open Senior/Staff MCO/CPO Mess Open MCO/PO Mess Open Enlisted Mess Open Consolidated Mess Open
VI. Other Membership Associations	Includes the function of providing morale programs, services and facilities (other than open messes) to special interest groups. Merchandise is sold only to members and is directly related to the purpose and function of the membership association.	Food Bar Catering Bingo Vending Machines Amusement Machines Swimming Pools Tennis/All Purpose Courts ¹ Community TV Motorcycle Parachute/Sky Diving Scuba/Diving Red and Gun
VII. Common Support Service NAFTs	Includes all NAFTs performing consolidated support services functions such as accounting, procurement or personnel services for more than one category of NAFTs. Does not include staff management functions at installation, major command, or Service headquarters levels, the costs of which are allocated to the benefiting categories.	Other membership associations may be authorized by the DoD Components provided that facilities and activities do not duplicate those in Category IIIB. Headquarters level Common Support Services Fund Major Command level Common Support Services Fund Installation Common Support Services Fund

¹ Existing and underconstruction only. Future swimming pools and tennis courts will be in Category III.

CATEGORIZATION OF MWR ACTIVITIES AND SUPPORTING NAFIs

CATEGORY	EXPLANATION OF EACH CATEGORY	TYPES OF MWR ACTIVITIES
VIII. Supplemental Mission Services NAFIs	Includes all NAFIs providing MWR services as adjuncts to training, health billeting, or other mission support programs. (Note: Costs of mission support programs and personnel assigned to these programs will be reported IAW DoD Instruction 7000.12 (reference (1)) only to the extent that they relate directly to the NAFI of its functions. For example, costs of operating billets will not normally be charged to Category VIII. Billeting fund activities are limited to those that supplement the appropriated fund program supporting the billeting mission activities, for example, provision of room maid service. However, billeting personnel who are assigned collateral duty of collecting, accounting or disbursing of NAF should be reported. Similarly, if a part of a billet or small building is provided as a facility for use of chambermaids or other billeting fund employees, utility and other billeting fund employees, utility and other cost related to this NAFI function should be reported.)	Headquarters level Supplemental Mission Fund Academy Dining Hall Supplemental Mission Fund Billeting/Housing (includes temporary lodging facilities & guest houses) Supplemental Mission Fund Thayer Hotel Supplemental Mission Fund Cadet Awards Supplemental Mission Fund Chaplain-Religious Fund 44-4 Dependent School Supplemental Mission Fund In-Flight Services Supplemental Mission Fund Military Museum/Historical Supplemental Mission Fund Vehicle Registration Supplemental Mission Fund Animal Care Fund Voluntary Contribution Supplemental Mission Fund Academic Support Supplemental Mission Fund Commandant's School Supplemental Mission Fund Special Learning Center Supplemental Mission Fund Cadet Restaurant Athletic Association Supplemental Mission Fund U.S. Disciplinary Barracks Supplemental Mission Fund Cadet Publications Supplemental Mission Fund

NOTE: (THIS LIST OF MWR ACTIVITIES IS EXEMPLARY ONLY AND IS NOT INTENDED TO BE ALL INCLUSIVE.) DoD Components may approve additional MWR activities in appropriate categories as required; management of MWR activities will be consistent with their categorization. Open messes (Cat. V) may manage alcoholic beverage package stores (Cat. II) as separate fiscal entitlements and exchanges (Cat. I) and may manage paid-admission motion pictures (Cat. IIIB3) provided that separate financial records are maintained. Heads of DoD Components may authorize similar management arrangements, as necessitated by efficiency or economy, provided that resources are allocated and financial operations are reported in accordance with DoD categorization.